

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

Electronic Application Of Kentucky Power Company)	
For (1) A General Adjustment Of Its Rates For)	
Electric Service; (2) Approval Of Tariffs And Riders;)	
(3) Approval Of Accounting Practices To Establish)	Case No. 2023-00159
Regulatory Assets And Liabilities; (4) A)	
Securitization Financing Order; And (5) All Other)	
Required Approvals And Relief)	

Kentucky Power Company’s Transmission Cost Allocation Study Update

In the direct testimony of Joshua D. Burkholder, filed in this case on June 29, 2023, Mr. Burkholder described the steps that Kentucky Power Company (“Kentucky Power” or “Company”) has taken to address the Commission’s concerns regarding the Company’s transmission investment and expenses. Mr. Burkholder’s testimony further describes that American Electric Power Service Corporation (“AEPSC”) has initiated a review process to examine how PJM transmission costs are allocated to and among the Company and the other AEP operating companies operating in PJM (collectively, the “AEP East Operating Companies”), focusing primarily on cost allocation in the AEP Zone in PJM. That review will provide support for recommendations by AEPSC concerning PJM cost allocation to and among the AEP East Operating Companies.

Regarding the interests of Kentucky Power and its customers, the review is intended to address the specific concerns expressed by the Commission regarding transmission cost allocation impacts on the Company, and will primarily focus on costs inside the AEP Zone. In particular, the scope of work will expressly include the issues the Commission identified in its 2020 Rate Case Order. To support the transparency of the analysis, the Company also committed in Mr.

Burkholder's testimony to providing updates to the Commission about the progress of AEPSC's review every 30 days, beginning August 31, 2023, until the time the analysis is complete and recommendations from it are submitted to the Commission. The Company will file those updates as correspondence in this docket and anticipates that the other AEP East Operating Companies may provide the information to their respective state regulatory commissions and interested stakeholders, as appropriate.

Since initiation of the review process as described in testimony, AEPSC has selected Hannes Pfeiffenberger of the Brattle Group to conduct the transmission cost allocation analysis and provide a report to AEPSC (to be shared with the AEP Operating Companies). AEPSC has further retained Steven Herling of Herling Power Grid Consulting as a consulting expert to assist AEPSC on this matter. AEPSC and the external experts have been diligently developing the scope of work for the analysis. AEPSC with the input of the experts have identified two overall work streams: (1) analysis of potential changes to AEP Zone and PJM cost allocation for the AEP East Operating Companies; and (2) analysis of potential changes to the AEP Zone and PJM cost allocation for Kentucky Power (the "KY Analysis").

The KY Analysis is guided by the Commission's statements in its orders issued to Kentucky Power Company.¹ It will examine potential cost allocation options, including the current methodology for allocating costs in the AEP Zone, in accordance with the priorities expressed by the Commission's orders and FERC transmission cost allocation principles, with the objective of identifying an appropriate solution for Kentucky Power and its customers. The analysis will:

¹ See, e.g., Case No. 2017-00179, *Electronic Application of Kentucky Power Company for (1) A General Adjustment of Its Rates for Electric Service; (2) An Order Approving Its 2017 Environmental Compliance Plan; (3) An Order Approving Its Tariffs and Riders; (4) An Order Approving Accounting Practices to Establish Regulatory Assets and Liabilities; and (5) An Order Granting All Other Required Approvals and Relief*, Order (Ky. PSC Jan. 18, 2018) at 52, 54.

- o Review historical and forecasted transmission costs and revenues allocated to and by Kentucky Power based on the current PJM and AEP Zone cost allocation methodology;
- o Review historical and forecasted Kentucky Power transmission costs and revenues under other proposed cost allocation paradigms;
- o Consider for each option both quantifiable and other costs and benefits applicable to Kentucky Power, such as transmission reliability, generation diversity, and resource optimization, quantifying all such costs and benefits to the extent practical for evaluation purposes; and
- o Consider costs and benefits to Kentucky Power from both inside and outside the AEP Zone.

The KY Analysis will also include a review of the alternatives and potential risks for Kentucky Power and its customers regarding Kentucky Power either establishing its own PJM zone, joining another PJM zone, or adopting another solution related to PJM Zone membership. Finally, the Analysis will also discuss the process needed to implement proposed options, including time required for implementation.

Subsequent updates will be filed at thirty-day intervals.

Respectfully submitted,



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